STATE OF CALIFORNIA GAVIN NEWSOM

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

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December 19, 2022 **Agenda ID #21250**
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 20-02-009 ET AL:

This is the proposed decision of Administrative Law Judge Lau. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's February 2, 2023 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4).

/s/ MICHELLE COOKE
Michelle Cooke
Acting Chief Administrative Law Judge

AES:sgu
Attachment

Decision **PROPOSED DECISION OF ALJ LAU (Mailed 12/19/2022)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Compliance Review of Utility Owned Generation Operations, Portfolio Allocation Balancing Account Entries, Energy Resource Recovery Account Entries, Contract Administration, Economic Dispatch of Electric Resources, Utility Owned Generation Fuel Procurement, Diablo Canyon Seismic Studies Balancing Account, and Other Activities for the Record Period January 1 Through December 31, 2019. (U39E.)	Application 20-02-009
And Related Matters.	Application 20-04-002 Application 20-06-001

DECISION DISALLOWING UNDERCOLLECTED REVENUES RESULTING FROM 2019 PUBLIC SAFETY POWER SHUTOFFS AND ADOPTING METHODOLOGY FOR CALCULATING UNREALIZED REVENUES DURING PUBLIC SAFETY POWER SHUTOFFS

TABLE OF CONTENTS

Title **Page**

DECISION DISALLOWING UNDERCOLLECTED REVENUES RESULTING FROM 2019 PUBLIC SAFETY POWER SHUTOFFS AND ADOPTING METHODOLOGY FOR CALCULATING UNREALIZED REVENUES DURING PUBLIC SAFETY POWER SHUTOFFS

Summary

This decision resolves the 2019 ERRA Compliance Phase Two proceedings of Pacific Gas and Electric Company (PG&E), Southern California Edison (SCE), and San Diego Gas & Electric Company (SDG&E) (collectively the Joint Utilities), which were consolidated to address issues related to the Public Safety Power Shutoff (PSPS) events they initiated in 2019.

Separately, the Commission opened an Order Instituting Investigation 19-11-013 (PSPS OII) to examine whether the Joint Utilities complied with applicable laws, rules, and regulations when they initiated the PSPS events in 2019. In Decision (D.) 21-06-014 (decision resolving the PSPS OII), the Commission found that the Joint Utilities were grossly deficient in reasonably identifying, evaluating, and weighing the potential public harms to their customers when initiating the 2019 PSPS events and imposed on them a monetary remedy by prohibiting their collection of all authorized revenue requirement equal to the estimated unrealized volumetric sales and revenues resulting from future PSPS events.

This decision prohibits the Joint Utilities from adjusting future rates to collect any revenue shortfalls, recorded as undercollections in their respective balancing accounts, caused by PSPS events in 2019. This decision also adopts a methodology to calculate the estimated unrealized revenues the Joint Utilities incurred in 2019 or will incur during future PSPS events.

The consolidated 2019 ERRA Compliance proceedings of PG&E, SCE, and SDG&E are closed.

1. Background

1.1. Energy Resource Recovery Account (ERRA) Regulatory Process

The ERRA, authorized by Public Utilities Code (Pub. Util. Code) Section 454.5(d) and Decision (D.) 02-10-062, allows regulated energy utilities to recover power procurement costs for fuel and purchased power not already authorized to be recovered in rates. The ERRA regulatory process includes (1) an annual forecast proceeding to adopt a forecast of the utility's electric procurement cost revenue requirement and electricity sales for the upcoming year and (2) an annual compliance proceeding to review the utility's compliance in the preceding year regarding energy resource contract administration, least cost dispatch, and prudent maintenance of utility-owned generation and the ERRA balancing account. [1]

In the ERRA compliance proceeding, the Commission is required to perform a compliance review to consider whether a utility has complied with all applicable rules, regulations, opinions, and laws in implementing the utility's most recently approved procurement plan, administering its energy resource contracts, and managing its utility owned generation. As part of the ERRA compliance reviews, the Commission also considers whether the utility has prudently administered its contracts and generation resources and dispatched energy in a least cost manner. In addition, in ERRA compliance reviews, the Commission also considers whether entries the utility recorded in the ERRA balancing account and other balancing accounts are reasonable, appropriate, accurate, and in compliance with Commission decisions.

[1] D.02-10-062 at 47, 50 and Conclusion of Law 7.

1.2. 2020 ERRA Forecast Decisions

D.20-02-047, D.20-01-022, and D.20-01-005 (collectively the 2020 ERRA Forecast Decisions) respectively directed Pacific Gas and Electric Company (PG&E), Southern California Edison (SCE), and San Diego Gas & Electric Company (SDG&E) (collectively the Joint Utilities) to include in their individual 2019 ERRA Compliance applications an accounting of the Public Safety Power Shutoff (PSPS) events they each initiated in 2019 and explain how these events impacted their revenue collections. The 2020 ERRA Forecast Decisions state that the scope of each utility's 2019 ERRA Compliance proceedings may consider the following questions:

1) Should sales forecasting methods for adjusting revenue requirement under current decoupling policy be adjusted to account for power not sold during a PSPS event? If so, describe how.
2) What methods could be used to account for sales lost during a PSPS distinct from sales reductions due to conservation?
3) If a utility does not collect its full revenue requirement due to lower volumetric sales during a PSPS, should it be prevented from adjusting future revenue requirements to make up for any undercollection? If so, describe how.[2]

1.3. Phase One of 2019 ERRA Compliance Proceedings

The Commission bifurcated the 2019 ERRA Compliance proceedings of the Joint Utilities into a Phase One and a Phase Two, setting aside Phase Two to

[2] D.20-02-047 at 25; D.20-01-022 at 57; D.20-01-005 at 15.

solely address issues related to the 2019 PSPS events. The Commission resolved the issues in Phase One,[3] but Phase Two remained open.

1.4. Phase Two of 2019 ERRA Compliance Proceedings

On August 24, 2021, a joint PHC was held to discuss Phase Two issues in the Joint Utilities' 2019 ERRA Compliance proceedings A.20-02-009, A.20-04-002, and A.20-06-001. An Assigned Commissioner's Second Amended Scoping Memo and Ruling issued on September 7, 2021, consolidated the three proceedings, set the scope of issues for Phase Two of the consolidated proceedings, and extended the statutory deadline of the proceedings to August 29, 2022.

The Commission's Energy Division hosted a workshop on the Joint Utilities' proposed PSPS methodology on October 26, 2021. At the workshop, the Joint Utilities presented a joint methodology for calculating the unrealized volumetric sales and unrealized revenues resulting from PSPS events in any given year.

On November 4, 2021, the Joint CCAs filed a motion requesting the Commission clarify the scope of issues in this proceeding.

The Joint Utilities served joint testimony on Phase Two issues on November 5, 2021. On November 12, 2021, an ALJ ruling: (1) clarified the intent of the scoping memo to consider a range of PSPS methodologies; (2) set a deadline of 15 days from the issuance date of the ruling for the Joint CCAs to meet and confer with the Joint Utilities; and (3) set a deadline of 20 days from the

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[3] D.21-07-013 resolved PG&E's 2019 ERRA Compliance Phase One; D.21-07-015 resolved SCE's 2019 ERRA Compliance Phase One; D.21-07-018 resolved SDG&E's 2019 ERRA Compliance Phase One.

issuance date of the ruling for the Joint CCAs to file a response to the ruling for the purpose of informing the Commission of outstanding discovery disputes.

On December 2, 2021, the Joint CCAs filed a response to the November 12, 2021 ruling indicating that they had met with the Joint Utilities, made progress on discovery disputes, and anticipated any remaining concerns to be resolved through further discussion.

On January 18, 2022, TURN, Cal Advocates, and the Joint CCAs served intervenor testimony. On February 15, 2022, the Joint Utilities served rebuttal testimony.

On February 25, 2022, the parties filed a joint case management statement indicating that evidentiary hearings were not needed and proposing a schedule for the remainder of this proceeding. On March 23, 2022, the consolidated proceedings were reassigned to Commissioner John Reynolds.

On April 4, 2022, the parties jointly filed a motion to enter exhibits into the evidentiary record of this proceeding. On April 5, 2022, PG&E filed a motion for confidential treatment of certain exhibits. On April 6, 2022, an assigned ALJ issued a ruling requesting additional information and amending the procedural schedule. On April 15, 2022, the Joint Utilities jointly filed supplemental testimony in response to the April 6, 2022 ruling. On April 29, 2022, the Joint CCAs filed intervenor testimony in response to the Joint Utilities' supplemental testimony. On May 26, 2022, the Joint Utilities, Cal Advocates, TURN, and the Joint CCAs jointly filed a supplemental motion for entry of two additional exhibits into the evidentiary record.

On May 27, 2022, the Joint Utilities, Cal Advocates, TURN, and the Joint CCAs filed Phase Two opening briefs. On June 17, 2022, the Joint Utilities, Cal Advocates, TURN, and the Joint CCAs filed Phase Two reply briefs.

On June 17, 2022, an assigned ALJ issued a ruling requesting an offer of proof for certain exhibits and setting a status conference. On June 24, 2022, Cal Advocates and the Joint Utilities filed offers of proof for their respective exhibits. On June 28, 2022, an assigned ALJ held a status conference to discuss certain procedural matters related to the exhibits offered into evidence in Phase Two.

On July 1, 2022, Cal Advocates served confidential exhibits pre-marked as CalAd-2, CalAd-17, and CalAd-18 on the assigned ALJs, as requested during the June 28, 2022 status conference. On July 11, 2022, the Joint CCAs filed both an offer of proof for selected exhibits and a motion to seal confidential portions of Exhibit CCA-6-C, as requested during the June 28, 2022 status conference. On July 13, 2022, 20 exhibits were admitted into the evidentiary record and seven exhibits were granted confidential treatment by ALJ ruling.

On July 18, 2022, the Commission issued an order extending the statutory deadline for the consolidated proceedings to March 1, 2023.

1.5. Order Instituting Investigation 19-11-013 (PSPS OII)

On November 13, 2019, the Commission instituted the PSPS OII to determine whether California's electric investor-owned utilities, including the Joint Utilities, complied with applicable laws, rules, and regulations when they initiated the PSPS events in 2019.

On June 3, 2021, the Commission issued D.21-06-014 (PSPS OII Decision), resolving the PSPS OII. The PSPS OII Decision finds that the Joint Utilities failed to reasonably comply with the obligation to promote safety in accordance with

Pub. Util. Code Section 451, the PSPS guidelines the Commission established in D.19-05-042, and Resolution ESRB-8 when they initiated the PSPS events in 2019.[4]

Ordering Paragraph 1 of the PSPS OII Decision states:

> Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas & Electric Company (SDG&E) must forgo collection in rates from customers of all authorized revenue requirement equal to estimated unrealized volumetric sales and unrealized revenue resulting from Public Safety Power Shutoff (PSPS) events after the effective date of this decision. Additionally, PG&E, SCE, and SDG&E must (1) agree on one methodology to rely upon in calculating these estimated unrealized volumetric sales and unrealized revenue, (2) include the amount of estimated unrealized volumetric sales and unrealized revenue resulting from PSPS events in the Energy Resource Recovery Account (ERRA) proceedings addressing the years in which the PSPS events occurred, (3) detail the method of calculating the amounts of estimated unrealized sales and unrealized revenue in the ERRA proceedings, and (4) report these estimated amounts unrealized sales and unrealized revenue in an annual PSPS report, as directed by the Commission in Rulemaking (R.) 18-12-005. Regarding any submitting this information in any pending ERRA or future ERRA proceeding, the utility shall request via an email to the Administrative Law Judge (and the service list) whether additional testimony is required on this topic and establishes a procedure for submitting this information on an ongoing basis in the ERRA proceeding. The ERRA proceedings, R.18-12-005, or other proceeding may be the appropriate forum to consider further details regarding this directive, such as whether this rate disallowance should be increased to reflect sales, if any, of excess power due to a proactive power shutoff and whether a different methodology or standard methodology should be used by the utilities in calculating this disallowance. This directive to forgo collection of rates, as detailed herein, shall

[4] D.21-06-014 at 2.

remain effective until a utility demonstrates improvements in identifying, evaluating, weighing, and reporting public harm when determining whether to initiate a PSPS event.

2. Issues Before the Commission

In this decision, the Commission is examining the following issues:

1. What is the appropriate methodology for calculating a utility's unrealized volumetric sales and unrealized revenues resulting from PSPS events in any given record year? Based on this methodology, what are the utilities' (PG&E, SCE, and SDG&E) unrealized volumetric sales and unrealized revenues resulting from 2019 PSPS events?
2. Whether it is appropriate for the utilities to return the revenue requirement equal to the unrealized volumetric sales and unrealized revenue resulting from the PSPS events in 2019.[5]

3. Methodology for Calculating Unrealized Revenues

The first issue we address in this decision is the appropriate method for calculating the amount of unrealized revenue requirement resulting from a PSPS event in any given record year. The PSPS OII Decision ordered the Joint Utilities to forego the collection of unrealized revenue requirement and directed them to present in this ERRA proceeding a joint proposal for calculating the amount of unrealized revenue requirement in any given record year. Even though the PSPS OII decision prohibits the Joint Utilities from collecting unrealized revenues for only future PSPS events, the calculation methodology we adopt in this decision shall apply to unrealized revenues resulting from all PSPS events in any given record year, including 2019 and future years.

[5] Assigned Commissioner's Second Amended Scoping Memo and Ruling, Notice of Consolidation, and Statutory Deadline Extension at 6-7.

A utility's revenue requirement is calculated by multiplying the forecasted sales by the authorized electric rate. Using this formula, we calculate a utility's unrealized PSPS revenues by multiplying the amount of unrealized electric sales by the electric rate at which the electricity was supposed to be sold at the time of the PSPS:

Unrealized PSPS Revenues[6] =
(Unrealized Volumetric Electric Sales) x (Electric Rate during the PSPS event)

The Joint Utilities' proposed method for calculating the unrealized electric sales was uncontested. The Joint Utilities' proposed method for calculating the electric rate, however, was heavily contested by the intervening parties. We discuss in detail these two components in the sections below.

In addition, the Joint CCAs propose to include unrealized wholesale generation revenues in the calculation of the unrealized PSPS revenues. As discussed later in this decision, we determine that unrealized wholesale generation revenues should be excluded from the calculation.

3.1. Calculating Unrealized Sales Volumes

3.1.1. Joint Utilities' Proposal

In the PSPS OII Decision, the Commission ordered the Joint Utilities to forgo collection in rates from customers of all authorized revenue requirement equal to estimated unrealized volumetric sales and unrealized revenue resulting from PSPS events after the decision's effective date. The PSPS OII Decision also directed the Joint Utilities to agree on one methodology to rely upon in

[6] This basic formula is applied to each class of ratepayers using the sales forecast and electric rate specific to each customer class. A utility's total unrealized PSPS revenues are the aggregate sum of the unrealized PSPS revenues calculated using this basic formula for each customer class. *See* IOU-01 at 8-21.

calculating estimated unrealized volumetric sales and unrealized revenues.[7] Pursuant to that directive, the Joint Utilities presented a common proposal for calculating unrealized sales volumes (Unrealized Volumetric Sales Methodology) using the following steps:

> 1. The utility identifies the specific customer accounts that were impacted by each PSPS event in a given record year;
>
> 2. For each affected customer of a PSPS event, the utility develops an electric consumption baseline using hourly load data from the seven days before and the seven days after each PSPS event (excluding data from other PSPS events during those two seven-day periods). For net energy metering (NEM) accounts, kilowatt-hour (kWh) net values are used; for non-NEM accounts, kWh delivered values are used;
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> 3. For each affected customer of a PSPS event, the utility calculates a weekday baseline profile for Mondays through Fridays and a weekend baseline profile for Saturdays, Sundays, and holidays for each hour (not just the hours affected by the PSPS event) by averaging the data from the two seven-day periods described in step 2 above, resulting in 24 hourly weekday baseline profiles and 24 hourly weekend baseline profiles for each affected customer of a PSPS event;
>
> 4. The utility identifies each affected customer's hourly load data for each hour of each day of a PSPS event (not just the hours affected by the PSPS event). For customer accounts without hourly load data, the utility calculates the ratio of the total hourly load for the affected customer's class to the total hourly baseline profile for that class and then multiplies that ratio by the customer's hourly baseline profile to obtain that customer's imputed hourly load; and
>
> 5. For each affected customer of a PSPS event, the hourly load data for each hour of each day of a PSPS event as described in step 4 above are subtracted from the

[7] D.21-06-014, Ordering Paragraph 1.

corresponding weekday or weekend hourly baseline profile described in step 3 above to calculate unrealized volumetric sales, and those customer level unrealized sales are then aggregated by customer class.[8]

3.1.2. Parties' Positions

The Joint CCAs state that the Joint Utilities' Unrealized Volumetric Sales Methodology is "reasonable" and should be adopted.[9] In their opening and reply briefs, Cal Advocates and TURN do not express any opposition to the Joint Utilities' Unrealized Volumetric Sales Methodology.

3.1.3. Discussion

We find that the Joint Utilities' Unrealized Volumetric Sales Methodology properly implements the Commission's directive in the PSPS OII Decision to propose a methodology for calculating estimated unrealized volumetric sales regarding PSPS events by considering such factors as baseline time frame, hourly load, the absence of load data for some customers, and weekday versus weekend load differences. We agree with the Joint CCAs that the Joint Utilities' Unrealized Volumetric Sales Methodology is reasonable. Despite notable disagreements among the parties regarding the proper methodology for calculating unrealized revenues from PSPS events, no party opposed the Joint Utilities' methodology for unrealized volumetric sales. For these reasons, we adopt the Joint Utilities' Unrealized Volumetric Sales Methodology.

3.2. Calculating Electric Rate and Rate Components

3.2.1. Joint Utilities' Proposal

The Joint Utilities propose to use only the volumetric electric distribution rate (IOU Proposed Rate), as measured in dollars per kWh, to calculate the

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[8] IOU-01 at 9-16.

[9] Joint CCAs' Opening Brief at 4.

disallowed unrealized revenues. Arguing that PSPS events primarily impact distribution facilities, the Joint Utilities assert that limiting the disallowance to the distribution rate is appropriate.

The IOU Proposed Rate also excludes the fixed distribution charges and distribution demand charges. The Joint Utilities explain that, because fixed charges or demand charges are not recovered through volumetric sales, it is appropriate to exclude them from their proposed rate.

Under the Joint Utilities' proposal, the amounts of unrealized revenues due to 2019 PSPS events are $5,493,234 for PG&E, $193,939 for SCE, and $54,034 for SDG&E.[10]

3.2.2. Summary of Intervenors' Positions

TURN, the Joint CCAs, and Cal Advocates (collectively Intervenors) oppose the IOU Proposed Rate because the IOU Proposed Rate limits the disallowance to only the distribution revenues. The Intervenors assert that this limited disallowance contradicts the directive in the PSPS OII Decision, which ordered a ratemaking remedy applied to "all authorized revenues," in recognition of the undue harms of overly broad PSPS events and as a deterrence to the Joint Utilities from initiating PSPS events in the future without careful consideration, evaluation, and balancing of the public harms of PSPS events.[11] The Intervenors also point out that PSPS events deprive customers of not only distribution services, but also transmission and generation services.

Furthermore, because the disallowance was also a monetary remedy for failing to comply with the PSPS guidelines, the Intervenors argue that the

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[10] IOU-01 at 25-27.

[11] D.21-06-014, Ordering Paragraph 1 and at 60.

Joint Utilities' shareholders should fund the unrealized revenues to pay for costs that utilities continue to incur during the PSPS events and for costs that the unrealized revenues were supposed to offset, such as the costs recorded in the Public Purpose Program and Nuclear Decommissioning balancing accounts.

3.2.2.1. TURN

TURN argues that the IOU Proposed Rate is not compliant with the PSPS OII Decision, which orders the utilities to forgo collection of "all authorized revenue requirement equal to estimated unrealized volumetric sales and unrealized revenue resulting from PSPS events."[12] TURN asserts that the IOU Proposed Rate limits the utilities' disallowance to only the distribution revenues.

Contesting the Joint Utilities' rationale for limiting the disallowance to distribution revenues, TURN argues that PSPS events impact electric services that are not limited to distribution. TURN argues that PSPS events also impact upstream electric services such as transmission, generation, procurement, and capacity, and that the harms of PSPS to ratepayers are not limited to the loss of distribution services. TURN also points out that the utilities have performed PSPS events on their transmission facilities, not just on distribution facilities.

TURN asserts that the PSPS OII Decision reflects an intent to remedy the "undue harms caused to customers by overly broad PSPS events," and emphasizes that the PSPS OII Decision ordered a "ratemaking remedy that will prevent utilities from recovering from customers any undercollections of authorized revenue requirement." TURN calculates that, in order for the Joint Utilities to return all authorized revenue requirement, PG&E would have to

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[12] D.21-06-014, Ordering Paragraph 1.

return $14,505,887, SCE would have to return $544,863, and SDG&E would have to return $294,742 in revenues to ratepayers.[13]

3.2.2.2. Joint CCAs

The Joint CCAs oppose the IOU Proposed Rate because the IOU Proposed Rate allows the utilities to record and recover costs recorded in balancing accounts without the offsetting revenues during PSPS events, causing higher rates in the future. The Joint CCAs argue that, because ratepayers from future periods must pay higher rates to cover the revenue shortfalls caused by PSPS events in a previous period, ratepayers from future periods are essentially cross-subsidizing the ratepayers for whom the PSPS events were initiated.

The Joint CCAs explain that, during a PSPS event, utilities continue to incur costs and record those costs in various balancing accounts during PSPS events, even when customers do not receive service. Utilities would then be recording costs in the balancing accounts independent of whether revenues are collected from customers during PSPS events. Because revenues are not collected but costs continue to be recorded in the balancing accounts, the balancing accounts accrue residual balances, which are then passed on and collected in rates the next year. Because those higher rates were collected from the next period's ratepayers to make up for the revenue shortfalls during the PSPS events, the Joint CCAs argue that future ratepayers are effectively subsidizing the ratepayers for whom the PSPS events were called. This cross-subsidy, the Joint CCAs argue, violates the cost causation principle adopted by

[13] TURN-01 at 6.

the Commission that only customers that incurred the costs should pay for those costs.[14]

The Joint CCAs propose that the Joint Utilities return the full revenue requirement equal to the unrealized revenues during PSPS events, and that the unrealized revenues should equal the revenues that the utilities were not able to earn during a PSPS event but have the possibility of being recovered from customers at a later time via balancing accounts.[15] Under the Joint CCAs' proposal, the rate to be used in the calculation should include any component that is linked to one or more balancing accounts for which the lack of revenue collection during a PSPS event can cause a residual balance that is passed onto customers at a later date and that is common to all the Joint Utilities. Given these criteria, the Joint CCAs recommend including the Distribution, Power Charge Indifference Adjustment (PCIA), Cost Allocation Method (CAM), Competition Transition Charge (CTC), Public Purpose Program (PPP), Nuclear Decommissioning, and Green Tariff Shared Renewables (GTSR) rate components into the calculation but agree to excluding the Commodity (ERRA) rate component because the ERRA rate reflects the "at market" costs of serving load.[16] The Joint CCAs propose that the Joint Utilities' shareholders fund the revenue shortfalls for these balancing accounts, including the PPP and Nuclear Decommissioning balancing accounts.

In addition, since rate structures may change over time, the Joint CCAs recommend evaluating and updating the list of applicable rate components that should be included in the calculation each year after 2019.

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[14] D.14-06-029 at 12.

[15] Joint CCAs' Opening Brief at 14.

[16] CCA-01 at 17.

Under the Joint CCAs' proposal, the amounts of unrealized revenues resulting from 2019 PSPS events would be $9,273,646 for PG&E, $427,754 for SCE, and $119,173 for SDG&E.[17]

3.2.2.3. Cal Advocates

Contesting the IOU Proposed Rate, Cal Advocates argues that the PSPS OII Decision does not limit the calculation of the unrealized revenues to only distribution revenues. Cal Advocates asserts that, because the PSPS OII Decision requires the Joint Utilities to forgo collection of all authorized revenue requirement resulting from PSPS events, all CPUC-jurisdictional retail rate components should be included in the calculation of the unrealized revenues.

Cal Advocates also shares the Joint CCAs' concerns about the potential for costs recorded in balancing accounts to be shifted to another set of ratepayers if costs recorded during the PSPS events get passed to the following year's ERRA forecasting process. Cal Advocates supports having the shareholders fund those costs the Joint Utilities recorded in the balancing accounts but did not recover during PSPS events.

3.2.3. Joint Utilities' Rebuttal

The Joint Utilities oppose including the additional rate components the Intervenors proposed in the calculation of unrealized revenues, arguing that most of the proposed rate components recover pass-through costs and are not related to PSPS events. We discuss below the Joint Utilities' arguments against each of the Intervenors' proposed rate components.

3.2.4. Discussion

In determining the appropriate electric rate and rate components to use in calculating the unrealized PSPS revenues, we consider the PSPS OII Decision and

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[17] CCA-01 at 18.

its intent in ordering a disallowance of the unrealized revenues. The PSPS OII Decision finds that the Joint Utilities failed in identifying, evaluating, weighing, and reporting public risks, failed to uphold their obligation to promote safety under Pub. Util. Code Section 451, and failed to comply with Commission-established PSPS guidelines when they initiated the PSPS events in 2019. Because of these deficiencies and to deter the Joint Utilities from continuing these deficiencies, the PSPS OII Decision imposes a ratemaking remedy on the Joint Utilities until they can demonstrate improvement.

The ratemaking remedy, which is to be implemented after the effective date of the PSPS OII decision, requires the Joint Utilities to forgo collecting "all authorized revenue requirement equal to estimated unrealized volumetric sales and unrealized revenues resulting from PSPS events."[18] In other words, the Joint Utilities cannot collect from ratepayers any and all revenues that were lost because of future PSPS events.

Because the utilities must forgo all revenue requirement that was unrealized during PSPS events, we find it reasonable for the Joint Utilities to include in the calculation of the disallowed revenues all rate components that are 1) subject to the Commission's jurisdiction, and 2) charged based on volumetric sales. The only exceptions to this rule are 1) rate components that recover costs for a balancing account in which a revenue shortfall or difference would not be recorded as a result of a PSPS event, such that ratepayers are indifferent after a PSPS event (e.g. the ERRA rate), and 2) rate components that would provide a credit to ratepayers during a PSPS event (e.g. the 2019 Nuclear Decommissioning

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[18] D.21-06-014, Ordering Paragraph 1.

Rate credits). Rate components meeting either of these two criteria should be excluded from the calculation of disallowed revenues.

As the Joint CCAs point out, rate structures change over time. We, therefore, do not prescribe a rigid list of rate components to be included in the calculation but provide the above principles to determine the rate components to be included in the calculation. Following the principles set forth above, the Joint Utilities shall include all applicable rate components in the calculation of unrealized PSPS revenues based on the applicable utility's rate structure at the time the PSPS event was initiated.

Below, we discuss how we evaluated the facts and considered the arguments presented by the parties to reach this conclusion.

3.2.4.1. PSPS OII Decision Disallowance of All Authorized Revenues that Were Not Collected

Ordering Paragraph 1 of the PSPS OII Decision states:

> Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas & Electric Company (SDG&E) must forgo collection in rates from customers of all authorized revenue requirement equal to estimated unrealized volumetric sales and unrealized revenue resulting from Public Safety Power Shutoff (PSPS) events after the effective date of this decision.

The PSPS OII Decision orders the Joint Utilities to forgo collecting all authorized unrealized PSPS revenues after the effective date of the decision as a ratemaking remedy for initiating PSPS events without carefully considering, evaluating, and balancing their public harms and benefits in 2019. Because the Joint Utilities did not comply with the PSPS guidelines, the Joint Utilities initiated overly broad PSPS events in 2019 that should have been more targeted to limit the harms to the affected customers. The PSPS OII Decision states that "if utilities had engaged in this analysis, their implementation of the 2019 PSPS events may have been more targeted and the resulting harms to customers may have been reduced."[19] The disallowance the PSPS OII Decision orders is a ratemaking remedy in recognition of the Joint Utilities' failure to properly identify and evaluate the public harms and benefits of PSPS events and as an ongoing deterrence for the Joint Utilities to initiate broad PSPS events in this manner.

By not being able to collect revenues during a PSPS event, a utility incurs revenue shortfalls and records them as undercollected balances in its balancing accounts. In normal circumstances when a utility's actions are considered prudent, the Commission allows the utility to recover these undercollections by raising rates in the next period. However, the PSPS OII Decision prohibits the Joint Utilities from collecting PSPS revenue shortfalls, which are recorded as undercollections in balancing accounts. While the Joint Utilities were authorized to collect revenues to recover the costs of various activities and expenses to operate and maintain their services and facilities, as well as to manage various state-mandated public programs, they relinquished opportunities to collect those revenues when they initiated de-energizations without careful consideration and evaluation of the public harms and benefits in violation of the PSPS guidelines the Commission had previously established.

3.2.4.2. Shareholder Funding of Undercollected Balances Caused by PSPS Events

The PSPS OII Decision orders a ratemaking remedy of "all authorized revenue requirement" in light of the Joint Utilities' failure to properly consider public harm in initiating PSPS events. That unequivocal language from the PSPS

[19] D.21-06-014 at 59.

OII Decision points to the Joint Utilities' shareholders, not ratepayers, to fund the revenue shortfalls resulting from PSPS events. As the Intervenors state, when there are undercollected balances, the ratepayers in the next period typically pay higher rates to make up for these shortfalls. Because the utilities initiated PSPS events without careful consideration of public harm, it is unreasonable that future ratepayers pay for revenue shortfalls resulting from prior PSPS events that were not initiated on their behalf. For these reasons, it is reasonable for shareholders to fund all revenue shortfalls recorded in each of the Joint Utilities' balancing accounts resulting from PSPS events, with the exception of balancing accounts which do not record any revenue shortfalls or variances caused by PSPS events.

3.2.4.3. Rate Components and Balancing Accounts

The balance of each balancing account is recovered through specific "rate components," such as the ERRA rate, the distribution rate, and the PPP rate. As the Intervenors dispute which rate components to include in the calculation of the disallowed unrealized PSPS revenues, the general rule is that all CPUC-jurisdictional rate components that are charged based on volumetric sales should be included except for rate components that do not recover any revenue shortfalls or variances resulting from PSPS events.

Below, we discuss and analyze each of the rate components that the Intervenors disputed.

3.2.4.3.1. IOU Proposed Rate's Limitation of Disallowance to Unrealized Distribution Revenues

The Joint Utilities propose to use only the volumetric portion of the distribution rate to calculate the unrealized PSPS revenues. The Joint Utilities call the volumetric portion the "energy-related" portion of the distribution rate. However, the Joint Utilities' proposal to limit the disallowance to only unrealized distribution revenues is contrary to the PSPS OII Decision, which disallows the Joint Utilities from recovering <u>all</u> authorized revenues they were not able to collect during the PSPS events. A PSPS de-energization event affects electric services that are beyond distribution services, preventing ratepayers from receiving all electric services, such as transmission, generation, and procurement services. The harms of PSPS to ratepayers are not limited to the loss of distribution services.

For these reasons, we find that the IOU Proposed Rate, which limits the disallowance to only unrealized distribution revenues, is not reasonable and is contrary to the PSPS OII Decision.

3.2.4.3.2. Distribution Fixed Charges and Distribution Demand Charges

The Joint Utilities propose excluding the distribution fixed charges and distribution demand charges from the calculation of unrealized revenues because the collection of these charges is unrelated to PSPS events. The Joint Utilities explain that distribution fixed charges recover distribution assets, such as a customer's meter, and distribution demand charges collect revenue based on a customer's highest registered demand in any given bill cycle. Because of how these charges are designed, the Joint Utilities argue that they are not affected by PSPS events and should be excluded from the calculation. The Joint CCAs agree with the Joint Utilities to exclude the fixed and demand charges unless a PSPS event lasts an entire billing cycle.

We agree with the Joint Utilities and the Joint CCAs that excluding distribution fixed charges and distribution demand charges is appropriate. The collection of these charges is not affected by an occurrence of a PSPS event unless the event occurs over a continuous one-month period, which is highly unlikely. After excluding the distribution fixed charges and demand charges, only the volumetric portion of the distribution rate should be included in the calculation of unrealized revenues.

3.2.4.3.3. Procurement-Related Rates

The Joint Utilities also argue that procurement-related rate components, such as ERRA, PCIA, CTC, and CAM, should be excluded, asserting that Pub. Util. Code Section 454.5 assures recovery of procurement-related costs.

The Joint Utilities specifically emphasize excluding the ERRA rate. The Joint Utilities explain that, because they do not purchase electricity from the market during PSPS events, PSPS events do not cause any revenue shortfall in the utility's ERRA balancing account. The Joint CCAs concur with excluding the ERRA rate, stating that costs in the ERRA balancing account decrease commensurately with revenues during PSPS events.

We find that procurement-related rates, except the ERRA rate, are appropriate to be included in the calculation of unrealized revenues. The PSPS OII Decision disallows the Joint Utilities from recovering all authorized revenues, which include revenues for procurement-related costs. Therefore, including procurement-related rates in the calculation of unrealized PSPS revenues is appropriate. The ERRA rate, however, should be excluded, because costs are not recorded in the ERRA balancing accounts during PSPS events when utilities cease purchasing power from the market.

3.2.4.3.4. PPP Rate

The Joint Utilities argue that the PPP rate component should also be excluded because costs recorded in the PPP balancing accounts fund state-mandated programs, including income-qualified and energy efficiency programs.

Because the PSPS OII Decision disallows the Joint Utilities from recovering all authorized unrealized revenues, unrealized PPP revenues should be included in the disallowance. Even though the Joint Utilities are typically allowed to recover the costs of state-mandated public purpose programs, they relinquished the opportunity to recover these costs by imprudently initiating PSPS events, contrary to PSPS guidelines to consider public harm before de-energizing the grid. For these reasons, we find it reasonable to include PPP rates in the calculation of unrealized PSPS revenues. As a result, shareholders shall fund the unrealized PPP revenues resulting from PSPS events.

3.2.4.3.5. Nuclear Decommissioning Rate

The Joint Utilities oppose including the Nuclear Decommissioning rate component, asserting that the Nuclear Facility Decommissioning Act of 1985 ensures that they have sufficient funds to cover the costs of decommissioning.

Similar to the reasons stated for the PPP rate, we find that the Nuclear Decommissioning Rate should be included in the disallowance, except if the Nuclear Decommissioning Rate was intended to be a credit to ratepayers when the PSPS event was initiated. The PSPS OII Decision disallows the Joint Utilities from recovering all authorized unrealized revenues, a category that includes revenues intended to recover nuclear decommissioning costs. Even though the Commission granted utilities the authority to recover the costs recorded in the Nuclear Decommissioning balancing account, the Joint Utilities relinquished the opportunity to recover these costs by imprudently initiating PSPS events. The only exception is if the Joint Utilities were supposed to credit ratepayers for the Nuclear Decommissioning Balancing Account during the PSPS event. In those cases where the Nuclear Decommissioning Rate was supposed to be a credit, the Nuclear Decommissioning Rate should be excluded from the calculation.

3.2.4.3.6. Transmission Rate

The Joint Utilities argue that the transmission rate is under the jurisdiction of the Federal Energy Regulatory Commission and should be excluded. TURN and the Joint CCAs also do not include the Joint Utilities' transmission rate in their proposed calculations.

Transmission rates are not under the jurisdiction of the Commission.[20] While the PSPS OII Decision disallows recovery of all authorized revenues, the Commission does not have the authority to disallow the recovery of the Joint Utilities' transmission revenues. Therefore, we find it appropriate to exclude transmission rates from the calculation of unrealized revenues.

3.2.4.3.7. GTSR and ECRA (Energy Cost Recovery Amount)

The Joint Utilities also argue for the exclusion of the GTSR and ECRA rate components. TURN proposes to include the GTSR and ECRA rate components in the calculation of unrealized revenues.

The Joint Utilities state that the GTSR rates, similar to the ERRA rates, should not be affected by PSPS events because recorded costs in the GTSR balancing account are offset by charges received from the California Independent System Operator (CAISO) so that there are not any revenue shortfalls or variances recorded in the account during PSPS events. Because GTSR rates fit

[20] Section 201 of the Federal Power Act gives the Federal Energy Regulatory Commission jurisdiction over the rates, terms, and conditions of service for the transmission and sale at wholesale of electric energy in interstate commerce. 16 U.S.C. §§ 824(a)-(b); see generally New York v. FERC, 535 U.S. 1 (2002) (discussing statutory framework and FERC jurisdiction).

into the category of an exception, similar to ERRA rates, it is appropriate to exclude the GTSR rate component from the calculation of disallowed revenues.

The Joint Utilities also oppose including ECRA because only PG&E has this rate component, and including ECRA in the calculation is counter to having a common set of rate components among the Joint Utilities. As discussed above, the methodology we adopt in this decision follows common principles rather than a set of pre-determined rate components to include in the calculation for disallowance. The ECRA rate component fits within the category to be included in the calculation for disallowance because it is under the jurisdiction of the CPUC, is charged based on volumetric sales, and does not fit into the category of an exclusion. Therefore, it is reasonable to include the ECRA rate component in the calculation for disallowed revenues.

3.2.5. Unrealized Wholesale Generation Revenues

Unrealized wholesale generation revenues are the generation revenues the Joint Utilities cannot collect from CAISO because forced outages caused by PSPS events prevent their generation facilities from producing power. Because PSPS events cause forced outages at utility-owned generation (UOG) facilities, the Joint Utilities cannot generate electricity to sell into the CAISO market, preventing them from earning any generation revenues to offset the costs of their UOG facilities.

3.2.5.1. Parties' Positions

The Joint CCAs argue that unrealized wholesale generation revenues cause ratepayers to pay higher rates. According to the Joint CCAs, while variable costs of the UOG resources will decrease during the PSPS event, fixed costs for the facilities are still being recorded in the balancing costs. These fixed costs could have been offset by unrealized wholesale generation revenues. The

Joint CCAs assert that the loss in collecting generation revenues during PSPS events results in less offset, with ratepayers ultimately paying higher UOG costs.

The Joint Utilities argue that unrealized wholesale generation revenues during PSPS events do not necessarily result in higher rates, asserting that it occurs only in specific circumstances. The Joint Utilities argue that unrealized wholesale generation revenues may result in higher rates only when the wholesale market revenues generated through dispatchable thermal resources are expected to be greater than incremental energy and commitment costs of the resource.[21]

The Joint Utilities also assert that calculating unrealized wholesale generation revenues is highly speculative and prone to error given the complexities of fluctuating power prices in the CAISO market.[22]

Cal Advocates supports the Joint CCAs in including unrealized wholesale generation revenues in the calculation for disallowance. Contesting the Joint Utilities' argument that unrealized wholesale generation would result in higher rates only under specific circumstances, Cal Advocates presents a three-month data sample set in 2019 that shows that the Joint Utilities' wholesale market revenues were greater than their total costs for each month.

3.2.5.2. Discussion

When determining the appropriate methodology to calculate the disallowance of unrealized PSPS revenues, the calculation methodology should not be overly complicated and overly punitive.

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[21] IOU-02 at 20-21.

[22] Joint Utilities' Opening Brief at 27-28.

Calculating unrealized wholesale generation revenues is highly speculative and prone to error given the complexities of fluctuating power prices in the CAISO market.[23] Numerous uncertainties and complexities exist in setting a calculation method that estimates a fair outcome for both ratepayers and the Joint Utilities.

Furthermore, it is uncertain whether unrealized wholesale generation revenues cause rates to increase in a future period. Unrealized wholesale generation revenues generally cause future rates to increase because generation revenues could not be collected to offset some of the UOG facilities' fixed costs, as demonstrated in the sample data set Cal Advocates provided. However, the Joint Utilities explain that this happens only in specific circumstances, such as when wholesale market revenues generated through dispatchable thermal resources are greater than incremental energy and commitment costs of the resource, but there are circumstances where the wholesale market revenues are less than incremental energy and commitment costs of the resource.

Given the complexities for computing a fair estimate of unrealized wholesale generation revenues, it is overly punitive to include unrealized wholesale generation revenues in the calculation of disallowed unrealized PSPS revenues. One purpose for the ratemaking remedy ordered in the PSPS OII Decision is to incentivize the Joint Utilities to improve their decision making, particularly with identifying and evaluating public harm prior to initiating PSPS events. The intention is not to be overly punitive. Including only unrealized retail revenues and excluding unrealized wholesale generation revenues in the calculation for disallowance strikes a good balance between deterring the utilities

[23] *Ibid.*

from initiating overly broad PSPS events without proper consideration of public harms and not being overly punitive.

For these reasons, we find it appropriate and reasonable to exclude unrealized wholesale generation revenues from the calculation of disallowed unrealized PSPS revenues.

4. Undercollections Resulting from 2019 PSPS Events

The next issue we consider is whether to disallow recovery of revenue shortfalls the utilities recorded in their balancing accounts as a result of 2019 PSPS events.

4.1. Parties' Positions

Because the Joint Utilities failed to comply with the PSPS guidelines, the Joint CCAs and Cal Advocates argue that the Joint Utilities should not be allowed to collect the unrealized revenues from the 2019 PSPS events. They also assert that allowing the Joint Utilities to collect these revenues shifts the costs of the 2019 PSPS events to future ratepayers who were not the intended beneficiaries.

The Joint Utilities argue that the Commission has already considered and determined in the PSPS OII Decision that the ratemaking remedy of disallowing unrealized revenues was to be applied to future PSPS events and not to past PSPS events in 2019. The Joint Utilities also argue that no new or additional facts were presented in this proceeding that would provide any justification or evidentiary support to overturn the PSPS OII Decision. As such, reversing the PSPS OII Decision, according to the Joint Utilities, may be viewed as arbitrary and capricious, an abuse of discretion, and a violation of Pub. Util. Code Section 1709. Reversing the PSPS OII Decision, the Joint Utilities further argue, yields unsound policy because it contradicts having "certainty, finality, and consistency" across Commission directives.[24] The Joint Utilities further argue that retroactive ratemaking prohibits the Commission from disallowing any 2019 authorized revenue requirements.

The Joint CCAs contest the Joint Utilities' assertions regarding retroactive ratemaking, arguing that case law, specifically *Southern California Edison v. Public Utilities Commission*,[25] establishes that adjustments made to balancing accounts do not constitute "general ratemaking" and that these adjustments are not considered "retroactive ratemaking." The Joint CCAs also argue that the Commission's disallowance, if approved, would apply to rates prospectively, similar to how ERRA compliance proceedings order revenue adjustments to balancing accounts that cause rates to change prospectively.

4.2. Discussion

Because of the widespread detrimental impacts of the 2019 PSPS events, the Commission is considering the impacts of the PSPS events in several separate proceedings. The first of these proceedings is the PSPS OII, which was initiated in November 2019 to consider whether the Joint Utilities prudently initiated the 2019 PSPS events. Subsequently, in January and February of 2020, the 2020 ERRA forecast decisions for each of the Joint Utilities directed them to include an accounting of the PSPS revenue impacts in their 2019 ERRA Compliance proceedings and noted that the 2019 ERRA Compliance proceedings could include as an issue in scope whether to prevent the Joint Utilities from adjusting future revenues to recover the 2019 PSPS revenue shortfall. The Assigned Commissioner's Second Amended Scoping Memo and Ruling in these

[24] Joint Utilities' Opening Brief at 34.

[25] *Southern Cal. Edison Co. v. Public Utilities Com.*, 20 Cal.3d 813 (1978).

consolidated proceedings formally set into scope the issue of the revenue shortfalls caused by the 2019 PSPS events.

Although both the PSPS OII and these 2019 ERRA Compliance proceedings were reviewing issues related to the 2019 PSPS events, they are separate proceedings, have discrete sets of issues pertaining to the 2019 PSPS Events, and were intended to operate on parallel tracks. While the PSPS OII Decision determines that the Joint Utilities imprudently initiated the 2019 PSPS Events and establishes a ratemaking remedy to serve as an ongoing incentive for the Joint Utilities to improve their decision-making, the PSPS OII Decision also provides that the Commission may take further actions with regards to the PSPS events in the ERRA proceedings.[26] Thus, the PSPS OII Decision does not preclude any actions the Commission may take on issues related to the 2019 PSPS events in the ERRA proceedings, and the PSPS OII Decision did not settle or resolve any PSPS issues addressed in the ERRA proceedings.

The Joint Utilities argue that disallowing 2019 unrealized PSPS revenues in this proceeding is a reversal of the PSPS OII Decision and is therefore arbitrary, capricious, and a violation of Pub. Util. Code Section 1709. PG&E and SDG&E made similar arguments when they filed an application to rehear their 2019 ERRA Compliance Phase One Decisions. Arguing that Pub. Util. Code Section 1709 provides that all Commission orders and decisions shall be conclusive, PG&E and SDG&E assert that the Commission's consideration of PSPS issues in Phase Two of the ERRA Compliance proceedings is a violation of Pub. Util. Code

[26] D.21-06-014 at 61. Footnote 140 states, "The Commission may also take further actions with regards to the issue of lower volumetric sales during a PSPS in the Energy Resource Recovery Account (ERRA) proceeding or other appropriate proceedings."

Section 1709.[27] D.21-12-018, which denied the rehearing of PG&E's and SDG&E's 2019 ERRA Compliance Phase One Decisions, determined that there is no law or legal principle preventing us from considering the set of PSPS issues presented in these proceedings.[28] Moreover, Pub. Util. Code Section 1709 does not bar further consideration of the impact of 2019 PSPS events on ERRA compliance regardless of what an earlier decision holds.[29] Pub. Util. Code Section 1708 also makes it clear that previous Commission holdings are not binding on the Commission, and that the Commission may re-evaluate its earlier findings and amend any Commission orders.[30]

The disallowances ordered in this decision, however, are not a reversal of the PSPS OII Decision, but rather a determination based on the unique facts of these proceedings. While the PSPS OII Decision sets a ratemaking remedy to serve as an ongoing incentive for the Joint Utilities to improve their PSPS decision-making process, this decision prohibits utilities from adjusting future revenue requirements to collect the revenue shortfalls caused by the 2019 PSPS events. This decision does not contradict or reverse the orders set in the PSPS OII Decision and is not arbitrary or capricious.

Because the Joint Utilities' imprudence caused the 2019 PSPS revenue shortfalls, we find it reasonable to disallow the Joint Utilities from adjusting future rates and revenues to recover balancing account undercollections

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[27] PG&E's Application for Rehearing of Decision 21-07-013 was filed on August 16, 2021. SDG&E's Application for Rehearing of Decision 21-07-018 was filed on August 20, 2021.

[28] D.21-12-018 at 3.

[29] D.21-12-018 at 4.

[30] *Ibid*; Pub. Util. Code 1708 provides that "[t]he commission may at any time, upon notice to the parties, and with opportunity to be heard as provided in the case of complaints, rescind, alter, or amend any order or decision made by it."

resulting from the 2019 PSPS events. The Joint Utilities did not act as a prudent manager when they initiated the PSPS events in 2019. By failing to identify, evaluate, weigh, and report public safety risks and harms before calling the PSPS events in 2019, the Joint Utilities did not comply with the PSPS guidelines the Commission established to safely de-energize the system.[31] In doing so, the Joint Utilities voluntarily stopped service without due consideration of public harm and ceased collection of authorized revenues, causing revenue shortfalls to record in the utilities' balancing accounts. Typically, if a revenue shortfall occurs due to an exogenous factor outside of a utility's control, the utility is allowed to raise rates of ratepayers in a future period to recover revenue shortfalls incurred by ratepayers from a previous period, even though ratepayers from the future period essentially cross-subsidize the ratepayers from a previous period. Because their imprudence caused the 2019 PSPS revenue shortfalls, however, we find that the Joint Utilities relinquished the opportunity to collect their authorized revenues during the 2019 PSPS events, and we disallow them from adjusting future rates to recover any revenue shortfalls caused by the 2019 PSPS events. The Joint Utilities shall calculate the revenue shortfalls attributable to the 2019 PSPS events by using the methodology set forth in this decision.

We disagree with the Joint Utilities' argument that this disallowance constitutes retroactive ratemaking and is prohibited. Under the ERRA ratemaking framework, these disallowances are allowed because the revenue shortfalls were caused by the utilities' imprudence, and therefore do not constitute a form of retroactive ratemaking. The ERRA compliance proceedings have routinely considered and authorized adjustments to balancing accounts,

[31] D.21-06-014, Conclusions of Law 11-13.

specifically when a utility was found imprudent in complying with the ERRA standards. For example, in D.19-03-016, SCE's 2015 ERRA Compliance decision, the Commission disallowed SCE's recovery of costs recorded in its balancing account because SCE failed to meet the reasonable manager standard when the forced outage in April 2015 at its Mountain View generating station occurred.[32]

Similarly, this decision bars utilities from making adjustments to their balancing accounts and raising future rates to recover 2019 PSPS revenue shortfalls because their imprudence caused the revenue shortfalls. The California Supreme Court, in *Southern California Edison v. Public Utilities Commission*,[33] found that the prohibitions against "retroactive ratemaking" are not absolute and allowed adjustments of overcollections outside of a general rate case.[34] Thus, the Commission may disallow utilities from recovering their balancing account revenue shortfalls under the framework of ERRA compliance proceedings.

Furthermore, the disallowances only affect rates prospectively. By disallowing recovery of the undercollections, the Commission is only prohibiting the utilities from raising future rates and revenues to recover the 2019 PSPS revenue shortfalls recorded in their balancing accounts. The Commission is not adjusting previously authorized 2019 revenues and rates. The Commission has made prospective rate changes when a utility's own conduct prevented the

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[32] "(T)he act of the utility should comport with what a reasonable manager of sufficient education, training, experience, and skills using the tools and knowledge at his or her disposal would do when faced with a need to make a decision and act." *See* D.90-09-088, 37 CPUC2d 488,499.

[33] *Southern Cal. Edison Co. v. Public Utilities Com.*, 20 Cal.3d 813 (1978).

[34] The court reviewed SCE's adjustments under an energy clause, which was the ratemaking mechanism the Commission used to record fuel and energy procurement costs prior to recording them in ERRA balancing accounts.

establishment of just and reasonable rates, such as in D.15-11-021, SCE's 2015 General Rate Case decision, which ordered a prospective ratebase offset.[35] D.15-11-021 states: "California case law clearly establishes that a utility may not invoke the rule against retroactive ratemaking when the utility's own conduct has prevented the establishment of just and reasonable rates."[36] Similarly, the disallowances ordered in this decision are a result of the Joint Utilities' imprudence, are prospective in nature, and do not constitute retroactive ratemaking.

5. Implementation

Within 60 days of the effective date of this decision, the Joint Utilities shall each file a Tier 2 Advice Letter to 1) present the estimated unrealized PSPS revenues for 2019 using the calculation method set forth in this decision, and 2) implement the disallowances for the 2019 PSPS unrealized revenues.

Within 60 days of the effective date of this decision, the Joint Utilities shall each serve supplemental testimony in their respective 2020 and 2021 ERRA Compliance proceedings to present an estimate of the unrealized revenues for the 2020 and 2021 PSPS events and support the estimate with detailed documentation of how the estimates were calculated using the calculation methodology adopted in this decision.

6. Comments on Proposed Decision

The proposed decision of ALJ Elaine Lau in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and

[35] D.15-11-021 at 430-455.

[36] D.15-11-021 at 445.

Procedure. Comments were filed on __________, and reply comments were filed on _____________ by ________________.

7. Assignment of Proceeding

John Reynolds is the assigned Commissioner and Elaine Lau is the assigned Administrative Law Judge and presiding officer in this proceeding.

Findings of Fact

1. D.21-06-014 found that the Joint Utilities failed to identify, evaluate, weigh, and report public risks, failed to uphold their obligation to promote safety under Pub. Util. Code Section 451, and failed to comply with Commission-established PSPS guidelines when they initiated the PSPS events in 2019.

2. D.21-06-014 imposes a ratemaking remedy on the Joint Utilities to deter them from continuing to initiate PSPS events without proper consideration of public harm.

3. As a ratemaking remedy, D.21-06-014 requires the Joint Utilities to forgo all authorized revenue requirement equal to estimated unrealized volumetric sales and unrealized revenues resulting from PSPS events.

4. The Joint Utilities' unrealized revenues from a PSPS event are calculated by multiplying the amount of unrealized volumetric electric sales by the electric rate at which the electricity was supposed to be sold at the time of the PSPS event.

5. The Joint Utilities' Unrealized Volumetric Sales Methodology properly considers such factors as baseline time frame, hourly load, the absence of load data for some customers, and weekday versus weekend load differences.

6. The Joint Utilities' Unrealized Volumetric Sales Methodology properly implements the Commission's directive in D.21-06-014 to propose a methodology to calculate estimated unrealized volumetric sales regarding PSPS events.

7. No party opposed the Joint Utilities' proposed methodology for unrealized volumetric sales regarding PSPS events.

8. Rate structures change over time.

9. By not being able to collect revenues during a PSPS event, the Joint Utilities incur revenue shortfalls and record them as undercollected balances in their balancing accounts.

10. When there are undercollected balances recorded in balancing accounts, the ratepayers in the next period typically pay higher rates to make up for these shortfalls.

11. The balance of each balancing account is recovered through specific rate components.

12. The Joint Utilities' proposed methodology for calculating unrealized revenues from PSPS events includes only unrealized distribution revenues.

13. A PSPS de-energization event harms ratepayers by preventing them from receiving all electric services, including transmission, generation, and procurement services, and not just distribution services.

14. Distribution fixed charges recover costs associated with distribution assets, such as a customer's meter.

15. Distribution demand charges collect revenue based on a customer's highest registered demand in any given bill cycle.

16. The collection of distribution fixed charges and distribution demand charges is not affected by a PSPS event except in the highly unlikely occurrence of a PSPS event over a continuous one-month period.

17. Because the Joint Utilities do not purchase electricity from the market during PSPS events, PSPS events do not cause any revenue shortfall in the utility's ERRA balancing account.

18. GTSR rates, similar to ERRA rates, are not affected by PSPS events because, given offsetting CAISO charges, no revenue shortfalls or variances would be recorded in the GTSR balancing account.

19. The ECRA rate component fits within the category of rate components that should be included in the calculation for disallowance.

20. Unrealized wholesale generation revenues are the generation revenues the Joint Utilities cannot collect from CAISO because forced outages caused by PSPS prevent their generation facilities from producing power.

21. Calculating unrealized wholesale generation revenues is highly speculative and prone to error given the complexities of fluctuating power prices in the CAISO market.

22. Numerous uncertainties and complexities in estimating unrealized wholesale generation revenues make it difficult to set a calculation method that results in a fair outcome for both ratepayers and the Joint Utilities.

23. It is uncertain whether unrealized wholesale generation revenues cause rates to increase in a future period.

24. It is overly punitive to include unrealized wholesale generation revenues in the calculation of disallowed unrealized PSPS revenues.

25. The intention of the ratemaking remedy ordered in D.21-06-014 is not to be overly punitive.

26. Including only unrealized retail revenues and excluding unrealized wholesale generation revenues in the calculation for disallowance strikes a good balance between deterring the utilities from initiating overly broad PSPS events without proper consideration of public harms and not being overly punitive.

27. Because of the widespread detrimental impacts of the 2019 PSPS events, the Commission is considering the impacts of the PSPS events in several separate proceedings: the PSPS OII and the 2019 ERRA Compliance proceedings.

28. The PSPS OII and the 2019 ERRA Compliance proceedings are separate proceedings and have discrete sets of issues pertaining to the 2019 PSPS Events.

29. The PSPS OII Decision did not preclude any actions the Commission may take on the issues related to the 2019 PSPS events in the ERRA proceedings and did not settle or resolve any 2019 PSPS issues addressed in the ERRA proceedings.

30. The Joint Utilities voluntarily stopped service without due consideration of public harm and ceased collection of authorized revenues, causing revenue shortfalls to record in the Joint Utilities' balancing accounts.

31. The Joint Utilities' imprudence caused the revenue shortfalls during the PSPS events in 2019.

32. The Commission has made prospective rate changes when a utility's own conduct prevented the establishment of just and reasonable rates, such as in D.15-11-021.

33. D.19-03-016 disallowed SCE's recovery of costs recorded in its balancing accounts because SCE failed to meet the reasonable manager standard when the forced outage in April 2015 at its Mountain View generating station occurred.

Conclusions of Law

1. The Joint Utilities' Unrealized Volumetric Sales Methodology is reasonable and should be adopted.

2. It is reasonable for the Joint Utilities to include in the calculation of unrealized revenues all rate components that are (a) subject to the Commission's jurisdiction, and (b) charged based on volumetric sales, except rate components

where a PSPS event would not cause a revenue shortfall or difference to be recorded in the Joint Utilities' balancing account and rate components that would provide a credit to ratepayers during a PSPS event.

3. It is reasonable for the Joint Utilities to include all applicable rate components in the calculation of unrealized revenues based on the Joint Utilities' rate structure at the time the PSPS event was initiated.

4. D.21-06-014 prohibits the Joint Utilities from collecting the revenue shortfalls, which were recorded as undercollections in their balancing accounts, that were caused by the 2019 PSPS events.

5. It is unreasonable that future ratepayers pay for revenue shortfalls resulting from prior period PSPS events that were not initiated on their behalf.

6. It is reasonable for shareholders to fund the revenue shortfalls, or undercollections, recorded in the balancing accounts that were caused by the 2019 PSPS events, with the exception of balancing accounts that do not record any revenue shortfalls or variances resulting from PSPS events.

7. The Joint Utilities' proposal to limit unrealized revenues to only unrealized distribution revenues is not reasonable and is contrary to D.21-06-014.

8. Distribution fixed charges and distribution demand charges should be excluded from the calculation of unrealized revenues.

9. It is appropriate to include procurement-related rates, except the ERRA rate, in the calculation of unrealized revenues.

10. The PPP rate component should be included in the calculation of unrealized revenues.

11. It is reasonable for the shareholders to fund unrealized PPP revenues resulting from PSPS events.

12. The Nuclear Decommissioning rate component should be included in the calculation of unrealized revenues, except if it is a credit to ratepayers when the PSPS event was initiated.

13. Transmission rates are not under the jurisdiction of the Commission.

14. The Commission does not have the authority to disallow the recovery of the Joint Utilities' transmission revenues.

15. It is appropriate to exclude the transmission rate component from the calculation of unrealized revenues.

16. It is appropriate to exclude the GTSR rate component from the calculation of unrealized revenues.

17. The ECRA rate component should be included in the calculation of unrealized revenues.

18. It is reasonable to exclude unrealized wholesale generation revenues from the calculation of unrealized revenues.

19. Pursuant to D.21-12-018, there is no law or legal principle preventing the Commission from considering the set of PSPS issues presented in these proceedings.

20. Pub. Util. Code Section 1709 does not bar consideration of the impact of 2019 PSPS events in these proceedings.

21. Under Pub. Util. Code Section 1708, the Commission may amend or alter any previous Commission order or decision.

22. The disallowances ordered in this decision do not contradict or reverse the orders set forth in the PSPS OII Decision.

23. Because the Joint Utilities' imprudence caused the 2019 PSPS revenue shortfalls, it is reasonable to disallow the Joint Utilities from adjusting future

rates and revenues to recover revenue shortfalls recorded in balancing accounts resulting from the 2019 PSPS events.

24. The disallowances ordered in this decision prohibit the Joint Utilities from adjusting future rates and revenues to recover the 2019 PSPS revenue shortfalls recorded in their balancing accounts.

25. The disallowances ordered in this decision do not adjust previously authorized 2019 revenues and rates, and only affect rates prospectively.

26. Because of the Joint Utilities' imprudence, they relinquished the opportunity to collect their 2019 authorized revenues during the PSPS events in 2019.

27. ERRA compliance proceedings have routinely considered and authorized adjustments to balancing accounts, specifically when a utility was found imprudent in complying with ERRA standards.

28. The disallowances ordered in this decision as a result of the Joint Utilities' imprudence are allowed under the ERRA ratemaking framework, only affect rates prospectively, and do not constitute retroactive ratemaking.

29. The California Supreme Court, in *Southern California Edison v. Public Utilities Commission*, found that the prohibitions against "retroactive ratemaking" are not absolute and allowed adjustments of overcollections outside of a general rate case.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company, Southern California Edison, and San Diego Gas & Electric Company are prohibited from adjusting rates or revenues in any future period to recover any revenue shortfalls, recorded as

undercollections in their respective balancing accounts, resulting from the Public Safety Power Shutoff events in 2019.

2. Shareholders for Pacific Gas and Electric Company, Southern California Edison, and San Diego Gas & Electric Company shall fund all revenue shortfalls recorded in each of their respective balancing accounts resulting from Public Safety Power Shutoff events.

3. The unrealized revenues of Pacific Gas and Electric Company, Southern California Edison, and San Diego Gas & Electric Company resulting from a Public Safety Power Shutoff (PSPS) event shall be calculated by multiplying the unrealized volumetric electric sales by the electric rate.

(a) The unrealized volumetric electric sales shall be calculated using the following steps:

   i. The utility identifies the specific customer accounts that were impacted by each PSPS event in a given record year;

   ii. For each affected customer of a PSPS event, the utility develops an electric consumption baseline using hourly load data from the seven days before and the seven days after each PSPS event (excluding data from other PSPS events during those two seven-day periods). For net energy metering (NEM) accounts, kilowatt-hour (kWh) net values are used; for non-NEM accounts, kWh delivered values are used;

   iii. For each affected customer of a PSPS event, the utility calculates a weekday baseline profile for Mondays through Fridays and a weekend baseline profile for Saturdays, Sundays, and holidays for each hour (not just the hours affected by the PSPS event) by averaging the data from the two seven-day periods described in step ii above, resulting in 24 hourly weekday baseline profiles and 24 hourly weekend baseline profiles for each affected customer of a PSPS event;

iv. The utility identifies each affected customer's hourly load data for each hour of each day of a PSPS event (not just the hours affected by the PSPS event). For customer accounts without hourly load data, the utility calculates the ratio of the total hourly load for the affected customer's class to the total hourly baseline profile for that class and then multiplies that ratio by the customer's hourly baseline profile to obtain that customer's imputed hourly load; and

v. For each affected customer of a PSPS event, the hourly load data for each hour of each day of a PSPS event as described in step iv above are subtracted from the corresponding weekday or weekend hourly baseline profile described in step iii above to calculate unrealized volumetric sales, and those customer level unrealized sales are then aggregated by customer class.

(b) The electric rate that shall be used to calculate a utility's unrealized revenues shall consist of all rate components that are under the jurisdiction of the California Public Utilities Commission and are charged based on volumetric sales, except rate components that do not recover any revenue shortfalls or variances resulting from PSPS events and rate components that provide a credit to ratepayers during the PSPS event. Pacific Gas and Electric Company (PG&E), Southern California Edison (SCE), and San Diego Gas & Electric Company (SDG&E) shall include all applicable rate components in the electric rate based on the utility's rate structure at the time the PSPS event was initiated.

(c) Unrealized wholesale generation revenues are excluded from the calculation of unrealized revenues.

4. Within 60 days of the effective date of this decision, Pacific Gas and Electric Company, Southern California Edison, and San Diego Gas & Electric Company shall each file a Tier 2 Advice Letter to

(a) present the estimated unrealized revenues resulting from the Public Safety Power Shutoff (PSPS) events in 2019 using the calculation methodology set forth in this decision, and

(b) implement the disallowances for the 2019 PSPS unrealized revenues.

5. Within 60 days of the effective date of this decision, Pacific Gas and Electric Company, Southern California Edison, and San Diego Gas & Electric Company shall each serve supplemental testimony in their respective 2020 and 2021 Energy Resource Recovery Account Compliance proceedings to present an estimate of the unrealized revenues for the 2020 and 2021 Public Safety Power Shutoff events and support each estimate with detailed documentation of how the estimate was calculated using the calculation methodology adopted in this decision.

6. Applications 20-02-009, 20-04-002, and 20-06-001 are closed.

This order is effective today.

Dated ____________________________, at San Francisco, California.